

REQUEST: Provide full and complete copies of all CSAs entered during 2001 and 2002, or, in the alternative, if such CSAs are on file with the Commission, a list of those CSAs and their effective dates. For each CSA provide:

- a. Customer Name
- b. Effective Date
- c. Expiration Date
- d. Description of services included.
- e. Unique conditions involving the service.
- f. Total value of the contract.
- g. A price-out of the contract.
- h. A price-out of the same services as provided under tariff, if applicable.
- i. The net savings to the customer in total and on a per unit basis.
- j. Details concerning installation or other fees waived pursuant to the CSA.
- k. Details concerning recurring rates suspended or waived pursuant to the CSA.

RESPONSE: BellSouth BSE, Inc. ("BSE") does not offer "Contract Service Arrangements ("CSAs") in its tariffs. However, BSE offers "Specialty Service Arrangements" (SSAs) as defined in Section 6.1, of BSE's Kentucky Tariff No. 1. According to BSE's tariff, the Company may enter into customer-specific SSAs furnished in lieu of existing tariff offerings to meet specialized requirements of the Customer not contemplated in the tariff. The terms of each SSA shall be negotiated on an individual case basis and be mutually agreed upon between the Customer and BSE. SSAs may include discounts off of rates contained in the tariff, and may be based partially or completely on a term or volume commitment, type of originating or terminating access, mixture of services or other distinguishing features.

Responses to Items 1a through 1k above for BSE's SSAs are found in Attachment A.

REQUEST: Provide a narrative description of your policies regarding entry into CSAs with specific customers, including a description of the manner in which those CSAs are filed or reported to the commissions for the states in which you operate. If you operate in multiple jurisdictions, compare and contrast applicable rules to other jurisdictions.

RESPONSE:

As outlined in Section 6.1 of BellSouth BSE, Inc. ("BSE") Kentucky Tariff No. 1, the terms of each SSA are negotiated on an individual case basis and mutually agreed upon between the customer and the BSE. SSAs may include discounts off of rates contained in the tariff, waivers of recurring or non-recurring charges, charges for specially designed and constructed services not contained in BSE's general service offerings, or other customized features. The terms of the SSA may be based partially or completely on a term and volume commitment, type of originating or terminating access, mixture of services or other distinguishing features.

BSE has found the market for telecommunications services in Kentucky to be highly competitive. There are numerous telecommunications companies vying to offer customers a full array of services, features and rate plans. As a result, these SSAs are necessary in order for BSE to have the flexibility necessary to compete in Kentucky's highly competitive telecommunications market place. BSE also believes it is necessary and prudent to develop customer specific SSAs in lieu of tariffed offerings to meet specialized or unique requirements of a particular customer not contemplated in the Company's filed tariffs.

Additionally, BSE has found that multi-location and multi-state customers often request uniform prices for the same services they purchase in multiple jurisdictions. These requests are made in order to simplify the customer's bill reconciliation process, consequently reducing the customer's overheads. National accounts and federal agencies are typical examples of these types of customers. To the extent allowed by the appropriate regulatory agencies, the type of service and market conditions, BSE will honor these requests. These customers typically have the ability to negotiate more flexible terms and pricing due to their size, complexity and the highly competitive nature of the services they purchase.

Finally, to the extent allowed by the appropriate regulatory agencies and market conditions, BSE will attempt to honor requests for uniform pricing from multi-location customers within the same state where the service is jointly provided by BSE and another LEC where limitations in BSE's service area do not allow BSE to provide the service in its entirety.

The Company is not aware of any requirements that Competitive Local Exchange Carriers file SSAs with the Commissions in the states where BSE operates. However, BSE would provide summaries of SSAs to a state Commission upon request. Other than in this proceeding, the Company has not received a request to furnish any data regarding SSAs or customer specific contracts from any state Commission where BSE operates to date.

REQUEST: To what extent should a telecommunications carrier be permitted to price its services differently depending on the existence of a competitor that is willing to serve some customers but not others?

- A. If you believe different pricing in such instances is appropriate, what level of objective evidence showing the actual existence of a competitive offer for the service in question should be required?
- B. If you do not believe that different pricing in such instances is appropriate, what would be the financial result to carriers who would no longer be able to price services based on competition?

RESPONSE: BellSouth BSE, Inc. ("BSE") strongly believes that flexibility to offer and provide services at rates and charges and under conditions not necessarily found in BSE's tariffs are essential to competing for telecommunications customers located in Kentucky. The ability to offer telecommunications services using customer specific contracts is especially important in those instances where competitors target only high margin or high profile customers using very aggressive rate plan offerings in order to achieve strategic objectives.

As discussed above, BSE strongly supports different pricing as a way to compete for customers in Kentucky. Nonetheless it is neither practical nor plausible to attempt to establish a level of objective evidence showing the actual existence of a competitive offer for the service in question.

As outlined in the pro-competitive provisions of KRS 278.512, the Kentucky Legislature has found that competition and innovation have become commonplace in the provision of certain telecommunications services in Kentucky and the United States.

The existence of this competition, particularly in the business market, is sufficient to justify the use of CSAs to make competitive offers. Without this pricing flexibility, a customers would lose one of the primary benefits of competition.

Additionally, the existence of competition or of a competitor should not be the only criterion used for offering a service at non-tariffed rates. As discussed in the response to Item No. 2, multi-location/multi-state customers may request the same price for the same service in different jurisdictions and/or from different LECs (when the service is jointly provided by more than one LEC operating in different service areas), in order to minimize those customers' bill reconciliation expenses and associated overheads.

REQUEST: Would you support or oppose a policy requiring that all customers for regulated services in the same geographic area or market receive the same prices, on the theory that if a competitor is in the area it may reasonably be assumed that a competitive offer is available to all customers in the area?

- a. If such a policy were adopted, how should the “geographic area” or “market” for which prices should be uniform be defined?
- b. If you oppose such a policy, explain the reasons for your opposition.

RESPONSE: BellSouth BSE, Inc. (“BSE”) does not believe that one can assume that “same pricing” is appropriate, in all cases, in the provision of telecommunications services. There are numerous variables to consider when developing telecommunications service offerings for individual business customers. Different customers may reside in the same geographic area or market yet possess very different telecommunications requirements. For example, two different customers physically located next to each other may have widely differing communications needs, e.g., volume, service level requirements, redundancy and the like. It is likely that the customer with a higher volume of communications needs will attract greater competitive interest than a customer with smaller volume needs. It is reasonable under these circumstances for the first customer, who has more competitive choices, to receive a price different than that offered to the second customer. Moreover, customers with higher volume needs may well be customers for whom a carrier has a lower cost structure, again justifying a different pricing for that customer.

It has been the experience of BSE that customers who are interested in and qualify for rates associated with SSAs are generally larger, complex business customers that require telecommunications solutions tailored specifically to their individual business needs. As a result, making available the same SSAs to all business customers that reside within a specific geographic areas would be unnecessary and inappropriate.

As stated in the responses to Items No. 2 and No. 3, the absence of a competitor in a given geographic area should not prevent a LEC from addressing customer requests for unique pricing arrangements tailored to the customer’s specific needs.

REQUEST: Would a requirement that all CSAs be filed publicly with the Commission ensure transparency and permit both customers and CLECs the access necessary to buy, resell, and notify the Commission of alleged violations of law?

RESPONSE: BellSouth BSE, Inc. does not believe that requiring customer specific contracts to be filed publicly with the Commission is appropriate or in the best interest of customers or all LECs. By their very nature, customer specific contracts are furnished in lieu of existing tariff offerings to meet specialized requirements of a customer that are not contemplated in the tariff and the terms and conditions of which are negotiated on an individual case basis.

The public filing of customer specific contracts does not ensure that the same pricing for the same service, even for service within the same wire center, will be available to similar customers. For example, in cases where there is spare capacity in a wire center, a carrier may find it possible to offer a large customer a discount over tariffed rates in order to attract that customer and reduce the amount of idle plant. The same discount may not be available to subsequent customers as the amount of spare capacity is reduced or eliminated. Just as importantly, the public filing of CSAs would provide competitively valuable information to other carriers, which in turn, would have a dampening effect on competition, to the final detriment of customers.

Further, the Company does not believe that any process of public filing of CSAs would provide a methodology to accomplish the surveillance function that would indicate whether an alleged violation of law has occurred. Each customer contract is unique, with its own set underlying costs, volumes and competitive environment. Without knowing all of these factors and more, little, if any, useful information could be gleaned from these contracts.

Additionally, due to competitive reasons of their own, large customers are often reluctant to have their contracts disclosed for public viewing.

REQUEST: What criteria should govern whether a regulated service should be sold by tariff only or by CSA? Explain fully.

RESPONSE: BellSouth BSE, Inc. believes that flexibility to offer and provide services at rates and charges and under conditions not necessarily found in a company's tariffs is essential in addressing the specific needs of telecommunications customers in the state of Kentucky. The ability to offer telecommunications services using customer specific contracts is especially important in order to provide customer specific telecommunications solutions in today's highly competitive market environment and to fulfill the needs of individual customers.

It would be extremely difficult, if not impossible, to establish objective criteria that would be useful in attempting to evaluate whether a regulated service should be sold by tariff only or by CSA. In fact, the primary consideration in the use of greater pricing flexibility resides in making every effort to provide effective communications solutions under competitive terms and at reasonable rates. CSAs should be available for use with all competitive services.

REQUEST: Discuss the impact on competition in particular and on the telecommunications industry in Kentucky in general that would result from deregulation of CSAs.

RESPONSE: BellSouth BSE, Inc. ("BSE") believes that the deregulation of CSAs would contribute in a number of ways to promoting competition in Kentucky. The CSA process affords the telecommunications industry the flexibility necessary to offer and provide services at rates and charges and under conditions not necessarily found in each company's filed tariffs. The deregulation of the CSA process would put customers in Kentucky in the very best position to obtain telecommunications services from the industry at the most favorable rates and under the best possible terms. Based on the highly competitive nature of the telecommunications industry today in Kentucky, larger more complex business customers have come to expect and demand the most favorable rates and terms possible.

In addition, these same customers expect the telecommunications providers to specifically tailor telecommunications and billing solutions to their specific communications needs. In many cases this would not be possible without the flexibility afforded with customer specific pricing.

REQUEST: At what level of availability of competitive alternatives in a given market should a service be deregulated pursuant to KRS 278.512? Is it feasible to deregulate a service in one market area of Kentucky and not in another?

RESPONSE: BellSouth BSE, Inc. ("BSE") does not believe that it is reasonable or possible to develop an objective "level of available competitive alternatives in a given market" to test whether or not a service should be deregulated in a given market area. The larger question that must be answered in considering deregulation of services pursuant to KRS 287.512 is whether, in fact, competition exists in the market place in Kentucky. As recognized by the Kentucky legislature in KRS 287.512, the answer is "yes". Based upon information obtained from the Commission's Utility Information System, the level of available competitive alternatives is confirmed by the fact that approximately 140 CLECs have been granted certification to provide telecommunications services in Kentucky.

BSE does not believe that it is reasonable or in a customer's best interest to attempt to deregulate complex business telecommunications services in one market area of the State and not in another market area of the state. The ability to administer different rate levels, terms and conditions, etc. within the State would not be practical. Other than for basic services, customers would find it difficult to understand how different rates apply for the same service based on where their office locations reside in the state. BSE also believes that complex business customers expect to obtain the most competitive rates and terms for all business locations throughout the state and, in fact, across the nation.

It should also be noted that a bifurcated approach to deregulation of certain telecommunications services could impose detrimental economic impacts on certain rural communities in the state. This could result when business decisions to locate in certain areas of the state are based on whether or not the serving carriers have the flexibility to provide targeted telecommunications solutions, flexible pricing and the ability to meet specific billing needs.

Additionally, services do not necessarily need to be "deregulated". They can be "detariffed" instead, in such a way that the Commission could still maintain regulatory oversight of certain telecommunications services while allowing carriers the flexibility not to file tariffs with the Commission. In fact, this is the current approach followed by the FCC and many state regulatory agencies for interexchange carriers.

BSE believes that data services, (e.g., Private Line, Frame Relay, etc.) and other services normally offered to larger sophisticated customers, should be detariffed or deregulated. At a minimum, any service available to customers at DS-1 levels or above should be detariffed or deregulated.

REQUEST: What procedures should take place during a Commission case to determine whether a service is sufficiently competitive to be deregulated?

RESPONSE: Obviously, a proceeding where carriers and their customers can provide input to the Commission is the most efficient and fair method to determine whether or not a service should be detariffed and/or deregulated. BellSouth BSE, Inc. ("BSE") believes that all business telecommunications services are sufficiently competitive and should be considered by the Kentucky Commission for possible deregulation. Short of that, BSE believes that these types of services should be detariffed (please see BSE's response to Item No. 8). The number of companies offering telecommunications services in Kentucky continues to increase almost daily. Based on information obtained from the Commission's Utility Information System approximately 140 CLECs have been granted certification to provide telecommunications services in Kentucky. As a result, business customers in Kentucky have the opportunity to purchase telecommunications services from a significant number of telecommunications service providers.

Deregulation of business telecommunications services will provide telecommunications companies with the flexibility to offer specific telecommunications solutions designed to meet individual customer situations. Customers in Kentucky would benefit greatly from deregulation of competitive services. Deregulation would provide them with the largest array of services at the most competitive prices possible and in the most efficient and timely manner possible.